

U.S. Department of the Interior

Notes to Principal Financial Statements

as of September 30, 1996 and 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of the Interior (“Interior” or “the Department”) is a Cabinet agency of the Executive Branch of the United States Government. Created in 1849 by Congress as the Nation’s principal conservation agency, the Department has responsibility for most of the nationally owned public lands and natural resources. The Department’s mission is (a) to encourage and provide for the appropriate management, preservation and operation of the Nation’s public lands and natural resources for use and enjoyment both now and in the future; (b) to carry out related scientific research and investigations in support of these objectives; (c) to develop and use resources in an environmentally sound manner and provide equitable return on these resources to the American taxpayer; and (d) to carry out the trust responsibilities of the U.S. Government with respect to American Indians and Alaska Natives.

The accompanying financial statements include the accounts of all Federal funds under Interior control, including the Land and Water Conservation Fund, the Historic Preservation Fund and the Reclamation Fund. However, the financial statements do not include trust funds, trust related deposit funds or other related accounts which are administered, accounted for and maintained by the Bureau of Indian Affairs on behalf of Native American Tribes and individuals. The Department issues financial statements for Indian Trust Funds under separate cover. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the Federal government as a whole, such as public borrowing or tax revenue, which may in part be attributable to the Department.

B. Organization and Structure of the Department

At September 30, 1996, the Department of the Interior was comprised of nine bureaus or operating entities and the Office of the Secretary (“Bureaus”). For purposes of presentation, the bureaus and activities of the Department have been broadly classified into the following categories:

<u>Natural Resources:</u>	<i>National Park Service</i> <i>U.S. Fish and Wildlife Service</i> <i>Bureau of Land Management</i> <i>Bureau of Reclamation</i> <i>The Office of Surface Mining Reclamation and Enforcement</i> <i>Minerals Management Service</i>
<u>Science:</u>	<i>U.S. Geological Survey</i>
<u>Indian Affairs:</u>	<i>Bureau of Indian Affairs</i>
<u>Other:</u>	<i>Office of Territorial and International Affairs</i> <i>Office of the Secretary</i>

Two Bureaus were closed during fiscal year 1996. The operations of the National Biological Service and certain programs of the Bureau of Mines have been transferred to the U.S. Geological Survey. The Helium Program of the Bureau of Mines was transferred to the Bureau of Land Management and its remaining programs and functions have been transferred to other agencies or eliminated.

The specific responsibilities and accomplishments of the bureaus are discussed in the Natural Resources, Science, Indian Affairs, Insular Affairs, and Departmental Management sections of this report.

C. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position, the net cost of operations, the custodial activities, and the changes in net position of the Department of the Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the Department in accordance with guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget.

The accounting structure of Federal Government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with the following hierarchy of accounting principles:

- Statements of Federal Financial Accounting Standards (SFFAS). These statements reflect the accounting principles, standards, and requirements recommended by the Federal Accounting Standards Advisory Board and approved by the Comptroller General of the United States, the Director of the Office of Management and Budget (“OMB”) and the Secretary of the Treasury.
- Form and content requirements for financial statements, as presented in OMB Bulletin No. 94-01, “Form and Content of Agency Financial Statements”; and
- The accounting principles and standards contained in Departmental and bureau accounting policy and procedures manuals, and/or related guidance

D. Elimination of Intra-Department Transactions

All identified inter-bureau and intra-bureau transactions have been eliminated from the Department’s consolidated financial statements.

E. Revenues and Other Financing Sources

The United States Constitution prescribes that funds must be made available by Congressional appropriation before they may be expended by a Federal agency. Most of the Department’s operating funds are in the form of Congressional appropriations. Additional funds are obtained through reimbursements for services performed for other Federal agencies and the public, reimbursements for the cost of construction of capital assets and for the costs of operating and maintaining irrigation and water facilities, Abandoned Mine Land fees, land management program receipts, fish and wildlife program receipts, as well as fees and miscellaneous receipts derived from other Departmental programs.

The Department’s Royalty Management Program, administered by the Minerals Management Service, collects bonuses, rents, royalties, and other receipts from Federal and Indian Leases, and distributes all proceeds to the U.S. Treasury, other Federal agencies, States, Indian Tribes, and Indian Allottees, in accordance with legislated allocation formulas. The amounts collected and transferred are disclosed in the Statement of Custodial Activities and are not considered to be revenues of the Department or of the Minerals Management Service.

F. Fund Balance with Treasury and Cash

The Department maintains all cash accounts with the U.S. Treasury, except for imprest fund accounts. The account, "Fund Balance with Treasury," primarily represents appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchase commitments. Cash receipts and disbursements are processed by Treasury. The Department's records are reconciled with those of the U.S. Treasury on a regular basis. Note 2 provides additional information concerning Fund Balance with Treasury.

G. Investments

The Department invests certain funds in U.S. Government and public securities on behalf of various Interior programs and for amounts held as custodian. Note 3 provides additional information concerning investments.

H. Accounts Receivable

Accounts Receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from the Department's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances. Note 4 provides additional information concerning accounts receivable.

I. Inventory

The Department's inventory is comprised primarily of maps for sale, helium for sale, and helium stockpile inventory. See Note 5 for information concerning inventory valuation and accounting methods.

J. Property, Plant and Equipment

Property, Plant and Equipment consists of land and buildings (used in operations); structures, facilities and improvements for power, irrigation, municipal and industrial water management, fish and wildlife enhancement, recreation, and flood control; automated data processing software; equipment and vehicles; bridges, trails and roads (Bureau of Indian Affairs); and construction in progress. In general, bureau policies state that equipment is capitalized at acquisition cost and is depreciated over its useful life using the straight-line method. The capitalization threshold for equipment is generally \$5,000.

Certain bureaus made significant changes to their property accounting and capitalization policies during fiscal years 1996 and 1995 in order to implement Statement of Federal Financial Accounting Standards (SFFAS) #6, "Accounting for Property, Plant and Equipment." Note 6 provides additional information concerning the Department's property, plant and equipment.

K. Land

The vast majority of public lands under the management of the Department were acquired by the Federal government as public domain land. In accordance with SFFAS #6, the Department assigns no value to the public land it administers. The Stewardship Assets section of this report and Note 7 provide additional information concerning land.

L. Loans and Interest Receivable

Loans are accounted for as receivables after the funds have been disbursed. For loans obligated prior to October 1, 1991, principal, interest and penalties receivable are presented net of an allowance for estimated uncollectible amounts. The allowance is based on past experience, present market conditions, an analysis of outstanding balances and other direct knowledge relating to specific loans. For loans obligated on or after October 1, 1991, loans receivable are reduced by an allowance for estimated uncollectible amounts which is equal to the present value of the subsidy costs (using the interest rate differential between loans receivable and Treasury borrowings), estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows associated with these loans. Note 8 has additional information concerning loans receivable.

M. Available from Contract Authority

These amounts represent the funds obligated by the Department of Transportation for the use of the Bureau of Indian Affairs in its road construction program.

N. Unmatured Timber Sales Contracts

Unmatured Timber Sales Contracts represent the obligation and the right of contractors to cut specific quantities of timber within a defined time period at a set price. These contracts between contractors and the Bureau of Land Management represent potential revenue to the U.S. Government that will materialize in future accounting periods as contracts are fulfilled.

O. General Investigation Costs

General Investigation Costs comprise reimbursable and non-reimbursable investigation and development costs incurred by the Bureau of Reclamation for water management projects that are not yet under construction. These costs are accumulated until the project is either authorized for construction or the decision is made not to undertake the project. When a project is authorized, the costs are moved to the construction in progress account, and upon project completion, to a completed asset account. Costs related to projects which will not be undertaken are written off.

P. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Department as the result of a transaction or event that has already occurred. The financial statements should be read with the realization that they are for a component of a sovereign entity, that no liability can be paid by the Department absent an appropriation of funds by Congress and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities for which an appropriation has not been enacted are, therefore, classified as "liabilities not covered by budgetary resources," and there is no certainty that the appropriations will be enacted.

Q. Personnel Compensation and Benefits

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefits costs. An unfunded liability is recognized for earned but unused annual leave, since from a budgetary standpoint, annual leave is funded from current appropriations when used by employees. Sick leave and other types of leave are expensed when used.

Office of Worker's Compensation Program Chargeback and unemployment compensation insurance are funded from current appropriations when paid. An unfunded liability is recognized for amounts to be paid in the future for current worker's compensation and unemployment compensation insurance.

Department of the Interior employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most Department employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

The Department makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For FERS employees, the Department contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 10 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from the Department.

The Office of Personnel Management is responsible for reporting assets, accumulated plan benefits and unfunded liabilities, if any, applicable to CSRS participants and FERS employees governmentwide, including Department employees.

R. Federal Government Transactions

The Department's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the Federal Government. These activities include public debt and cash management activities and employee retirement, life insurance and health benefit programs. The financial statements of the Department do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

S. Undistributed Royalty Collections

These amounts represent the custodial liability of Minerals Management Service to royalty recipients for cash, accounts receivable and investments held pending distribution.

T. Undistributed Special Receipt Fund Collections

The Bureau of Land Management's undistributed special receipt fund collections are not available for use except by appropriation or other statutory authority. These receipts are earmarked by law for a specific purpose and typically arise from sales of public lands, sales of timber, fees and commissions and other charges for services provided to users of public lands. They will be distributed as specified by law.

U. Contingent Liabilities

Contingent liabilities are recorded in the accounting records when the event potentially leading to the recognition of a liability is probable, and a reliable estimate of the scope of the potential liability is available. See Note 12 for additional information regarding contingent liabilities.

V. Income Taxes

As an agency of the U.S. Government, the Department is exempt from all income taxes imposed by any governing body, whether it be a Federal, State, Commonwealth, local or foreign government.

W. Comparative Data

Audited comparative data for fiscal year 1995 has been presented in order to provide an understanding of changes in financial position and operations of the Department. Certain prior year amounts have been restated to conform to current year presentation. See Note 14 for additional information.

NOTE 2. FUND BALANCE WITH TREASURY**A. Current Assets**

The U.S. Department of the Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury under Current Assets represents the right of the Department to draw on the U.S. Treasury for allowable expenditures. Obligated funds are designated either for goods and services ordered, but not received or for goods received and not yet paid. Unobligated funds are available for new obligations, however there may be restrictions placed on their availability.

Fund Balance with Treasury

(dollars in thousands)	Unobligated			1996	1995
	Obligated	Available	Unavailable		
Natural Resources:					
National Park Service	\$ 593,567	\$ 265,808	\$ 18,057	\$ 877,432	\$ 943,897
U.S. Fish and Wildlife Service	373,068	340,745	186,772	900,585	637,863
Bureau of Reclamation	284,859	324,828	2,110	611,797	561,869
Bureau of Land Management	185,811	251,231	174,148	611,190	478,167
Minerals Management Service	71,263	6,547	3,937	81,747	79,533
Office of Surface Mining	37,289	1,443	17,508	56,240	55,679
Total Natural Resources	1,545,857	1,190,602	402,532	3,138,991	2,757,008
Science	168,860	16,898	1,656	187,414	170,444
Indian Affairs	424,989	452,864	5,521	883,374	933,315
Other Programs	242,926	341,522	4,884	589,332	369,714
Total Fund Balance with Treasury	\$ 2,382,632	\$ 2,001,886	\$ 414,593	\$ 4,799,111	\$ 4,230,481

B. Assets Held on Behalf of Others

The Fund Balance with Treasury under Assets Held on Behalf of Others represents royalty collections received by Minerals Management Service, and held by it as custodian, until disbursed to recipients.

NOTE 3. INVESTMENTS**A. Current Assets**1. Investments in Treasury Securities:

The Office of Surface Mining, the Fish and Wildlife Service, the Bureau of Indian Affairs, the Office of the Secretary and the National Park Service invest funds in certain U.S. Government and public securities on behalf of various Department of the Interior programs.

Treasury Securities as of September 30, 1996

(dollars in thousands)	Face Value	Unamortized Discount	Net Book Value
Office of Surface Mining	\$ 1,426,350	\$ (25,776)	\$ 1,400,574
U.S. Fish and Wildlife Service	501,919	(14,578)	487,341
Office of the Secretary	45,459	(1,145)	44,314
Bureau of Indian Affairs	12,445	(17)	12,428
National Park Service	65	-	65
Total Treasury Securities	\$ 1,986,238	\$ (41,516)	\$ 1,944,722

Treasury Securities as of September 30, 1995

(dollars in thousands)	Face Value	Unamortized Discount	Net Book Value
Office of Surface Mining	1,315,335	(23,269)	1,292,066
U.S. Fish and Wildlife Service	549,475	(16,362)	533,113
Office of the Secretary	29,452	(1,494)	27,958
Bureau of Indian Affairs	12,915	(21)	12,894
National Park Service	65	-	65
Total Treasury Securities	\$ 1,907,242	\$ (41,146)	\$ 1,866,096

Office of Surface Mining: Effective October 1, 1991, the Office of Surface Mining was authorized to invest available Abandoned Mine Land (AML) trust funds in non-marketable federal securities. The Bureau of Public Debt is the sole issuer of authorized non-marketable federal securities which are available for purchase through the U.S. Treasury. Surface Mining has authority to invest AML trust funds in U.S. Treasury bills, notes, bonds, par value special issues, and one-day certificates.

Presently, all earnings from AML investments are reinvested, providing a source of continuous funding to further enhance AML trust fund equity. However, effective in fiscal year 1996, the Office of Surface Mining is required to transfer annually up to \$70 million in interest earned from the invested AML trust funds to the United Mine Workers of America Combined Benefit Fund. These investment proceeds are then used to provide health benefits for certain eligible retired coal miners and their dependents.

U.S. Fish and Wildlife Service: The U.S. Treasury collects, invests, and maintains on behalf of the Fish and Wildlife Service (FWS) the Aquatic Resources Trust Fund, which includes FWS's Sport Fish Restoration Account. The Appropriations Act of 1951 authorizes amounts equal to revenues credited during the year to be used in the subsequent fiscal year and recorded as "permanent appropriations to remain available until expended." The FWS investment amount does not include fiscal year 1996 collections held by Treasury for reporting in subsequent years.

Office of the Secretary: Effective with fiscal year 1994, the Office of the Secretary was delegated responsibility for investing funds contributed to the Utah Reclamation Mitigation and Conservation Account.

Bureau of Indian Affairs: The Bureau of Indian Affairs (BIA) invests Irrigation and Power receipts in U.S. Government and public securities until the funds are required for project operations. Federal investments are purchased under the U.S. Treasury Overnighter Program and in U.S. Treasury Bills and Notes.

National Park Service: The National Park Service administers an endowment on behalf of the Lincoln Farm Association. Investment earnings from this endowment are used to provide for maintenance and upkeep of Abraham Lincoln's birthplace.

When previously issued Treasury Bills are purchased by the Department, the unamortized premium or (discount) is calculated by Treasury at the time of the purchase.

2. Investments in Public Securities:

The BIA is authorized by law to invest irrigation and power receipts in U.S. Government and public securities. Investments in Public Securities consist of Certificates of Deposit from insured institutions and other securities consisting mainly of various mortgage instruments, bank notes and bonds. Mortgage instruments are issued by the Federal National Mortgage Association (Fannie Mae) and similar government corporations. Bonds and bank notes are issued by Federal Home Loan Banks, the Federal Judiciary and the Federal Farm Credit Banks. Investments in public securities reflect investments held by the BIA's Power and Irrigation program as of September 30, 1996 and 1995 and are recorded at cost.

B. Assets Held on Behalf of Others

Pursuant to Section 7 of the Outer Continental Shelf Lands Act, the Minerals Management Service is authorized to invest receipts from Outer Continental Shelf leases having boundary disputes in government securities. The current investment amount results from an ongoing boundary dispute with the State of Alaska dating back to 1979.

Escrow Investments Held by Minerals Management Service

(dollars in thousands)	1996	1995
Cost	\$ 1,497,561	\$ 1,362,101
Amortized Discount	39,970	44,564
Net Book Value	\$ 1,537,531	\$ 1,406,665

NOTE 4. ACCOUNTS RECEIVABLE

A. Current Assets

Public, Net of Allowance for Doubtful Accounts: Accounts receivable due to the Department from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by the Department are diverse and include the sales of water and hydroelectric power by the Bureau of Reclamation, and water testing and other scientific studies conducted for State and local governments by the U.S. Geological Survey. Fines and penalties are imposed by the Office of Surface Mining, the Minerals Management Service, the Fish and Wildlife Service, and other bureaus in the enforcement of various environmental laws and regulations. In general, receivables arising from the sales of products and services are paid more promptly and with fewer uncollectible accounts than those arising from fines and penalties.

Accounts Receivable - Public

(dollars in thousands)	Unbilled	Current	Past Due Accounts			Allowance for Doubtful Accounts	Total 1996	1995
			1-90 days	91-1yr	Over 1 yr			
Natural Resources:								
National Park Service	\$ 1,391	\$ 5,089	\$ 425	\$ 558	\$ 1,923	\$ (1,385)	\$ 8,001	\$ 6,969
U.S. Fish and Wildlife Service	1,339	3,913	301	414	177	(81)	6,063	5,286
Bureau of Reclamation	5	20,158	3,922	42,137	37,577	(10,034)	93,765	83,139
Bureau of Land Management	534	3,583	328	771	1,410	(4,825)	1,801	9,438
Minerals Management Service	-	1,663	-	-	-	-	1,663	107
Office of Surface Mining	-	12,600	1,280	2,884	43,910	(46,388)	14,286	12,606
Total Natural Resources	3,269	47,006	6,256	46,764	84,997	(62,713)	125,579	117,545
Science	42,719	13,543	6,619	4,153	6,629	(7,237)	66,426	69,938
Indian Affairs	-	638	6,666	19,195	2,993	(16,618)	12,874	23,919
Other Programs	-	1,809	-	-	-	(181)	1,628	245
Total Accounts Receivable - Public	\$45,988	\$ 62,996	\$ 19,541	\$70,112	\$94,619	\$ (86,749)	\$ 206,507	\$ 211,647

Accounts Receivable Due from Federal Agencies arise from the sale of products and services to other Federal agencies, including the sale of maps, the conduct of environmental and scientific services, and the provision of administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the Federal government resulting in a lower cost of Federal programs and services. All receivables from other Federal agencies are considered to be collectible. Unbilled receivables reflect work performed to date on long term agreements. The receivable will be billed either at the completion of the project or at agreed upon milestones.

Accounts Receivable - Federal

(dollars in thousands)	Unbilled	Current	Past Due Accounts			Total 1996	1995
			1-90 days	91-1yr	Over 1 yr		
Natural Resources:							
National Park Service	\$ 13,076	\$ 2,326	\$ 823	\$ 858	\$ 711	\$ 17,794	\$ 20,887
U.S. Fish and Wildlife Service	377	19,363	959	258	366	21,323	26,374
Bureau of Reclamation	16,476	1,787	-	-	-	18,263	27,687
Bureau of Land Management	8,691	5,077	25	20	5	13,818	15,036
Minerals Management Service	154	-	-	-	-	154	94
Office of Surface Mining	-	12,147	-	-	-	12,147	10,841
Total Natural Resources	38,774	40,700	1,807	1,136	1,082	83,499	100,919
Science	59,285	20,740	5,487	8,665	2,207	96,384	79,451
Indian Affairs	3,837	-	-	-	-	3,837	5,468
Other Programs	26,221	3,895	-	-	-	30,116	10,413
Total Accounts Receivable - Federal	\$128,117	\$65,335	\$7,294	\$9,801	\$3,289	\$ 213,836	\$196,251

B. Other Assets

Non-Current and Unmatured Receivables represent amounts due at future dates to the Bureau of Reclamation from the beneficiaries of large water and irrigation projects. The reimbursable costs of multiple-purpose water projects are recovered from project beneficiaries (See Note 10).

NOTE 5. INVENTORY

A. Current Assets

Inventory		
(dollars in thousands)	1996	1995
Natural Resources		
Helium Held for Sale	\$ 6,072	\$ 7,641
Seized Property for Sale	5,036	51
Other Natural Resources Inventory	2,229	2,498
Science		
Published Maps Held for Sale	9,241	83,676
Hydrologic Equipment	5,180	4,148
Other Science Inventory	1,584	0
Other	709	843
Total Inventory	\$ 30,051	\$ 98,857

The U.S. Geological Survey (USGS) publishes maps and map products for sale to the public and other Federal agencies, which are stored primarily in the USGS Rocky Mountain Mapping Center in Denver, Colorado. This inventory consists of 87 thousand map titles and 63.5 million individual maps as well as nearly 10 thousand books and other products. During fiscal year 1996, the Geological Survey changed its method of accounting for the map inventory, with the result that maps are valued at their estimated production cost rather than the estimated sales price. In addition, excess maps have been identified (i.e. quantities of any title which are not expected to be sold within the next five years) and no value is placed on these maps. As a result of these changes, a reduction of \$73 million to map inventory was recognized in 1996.

With the closure of the Bureau of Mines, the Department's helium inventory was transferred to the Bureau of Land Management. Helium held for sale includes above-ground refined helium plus that portion of helium in underground storage estimated to be sold in the following fiscal year.

B. Other Assets

The helium stockpile inventory is stored underground in a partially depleted natural gas reservoir. The Bureau of Land Management believes that 95 percent of the stockpile is recoverable, however, the amount of helium that will eventually be recovered depends on the future price of helium and the ability to control the mixing of native gas and the stockpiled helium.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

The capitalization and depreciation policies for property, plant and equipment are determined by individual Department Bureaus. In general, equipment is capitalized at acquisition cost and is depreciated over its useful life using the straight-line method. The capitalization threshold for equipment is generally \$5,000.

Certain bureaus made significant changes to their property accounting and capitalization policies during fiscal years 1996 and 1995 in order to implement Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." This standard established two broad classifications of Federal property. General property, plant and equipment, which is presented in the following table, consists of that property which is used in operations and, with some exceptions, consumed over time. Stewardship property, described in Note 7 and the section on Stewardship Assets at page 90, consists of public domain land and heritage assets, such as national monuments and

historic sites, which are expected to be maintained by the Department for the benefit of current and future generations. The impact of these changes includes reducing the reported financial value of public domain land and other stewardship assets to zero and implementing depreciation of property, especially real property, not previously depreciated. See Note 14 for additional discussion of these changes.

Property, Plant and Equipment, Net of Depreciation

(dollars in thousands)	Land and Buildings	Dams, Structures and Other Facilities	Vehicles Equipment & Aircraft	Other Plant & Equipment	Accumulated Depreciation	Total 1996	Total 1995
Natural Resources:							
National Park Service	\$ 238,349	\$ 1,058,609	\$ 263,639	\$ -	\$ (319,162)	\$ 1,241,435	\$ 1,075,886
U.S. Fish and Wildlife Service	307,031	603,726	251,778	-	(481,896)	680,639	774,658
Bureau of Land Management	21,999	157,246	246,867	4,985	(152,173)	278,924	283,778
Bureau of Reclamation	27,150	20,418,766	159,016	47,279	(7,344,272)	13,307,939	13,153,826
Office of Surface Mining	-	-	9,655	-	(4,262)	5,393	5,609
Minerals Management Service	-	-	23,158	-	(9,907)	13,251	12,422
Total Natural Resources	594,529	22,238,347	954,113	52,264	(8,311,672)	15,527,581	15,306,179
Science	18,164	765	313,897	-	(198,606)	134,220	248,580
Indian Affairs	1,442,579	246,004	174,938	-	(944,669)	918,852	3,519,574
Other Programs	-	3,381	27,826	862	(7,456)	24,613	25,572
Net Property, Plant and Equipment	\$ 2,055,272	\$ 22,488,497	\$ 1,470,774	\$ 53,126	\$ (9,462,403)	\$ 16,605,266	\$ 19,099,905

NOTE 7. STEWARDSHIP LAND

As a Nation, the United States once owned nearly two billion acres of public lands. In the course of national expansion and development, public lands were sold or deeded by the Federal Government to the States and their counties and municipalities, to educational institutions, to private citizens and to businesses and corporations. Other lands were set aside as national parks, forests, wildlife refuges and military installations. Currently, Federal civil and defense agencies administer about 657 million acres, or about 29 percent of the total 2.3 billion acres in the United States. Of the 657 million acres under Federal control, approximately 439 million acres are administered by the Department of Interior, principally by the Bureau of Land Management, the Fish and Wildlife Service, and the National Park Service.

The Bureau of Land Management (BLM) has exclusive jurisdiction for about 40 percent, or 264 million acres, of the Federally owned lands. Approximately one-third of this area is in the State of Alaska. Public lands under the jurisdiction of BLM are managed under the principles of multiple use and sustained yield for the benefit of all Americans. Public lands are leased to private companies providing vast amounts of oil, natural gas, and other valuable minerals. Leases to ranchers allow livestock, primarily sheep and cattle, to forage on more than 170 million acres of public lands. Timber products are another valuable commodity produced from public lands. Finally, most of the public lands are available for a wide variety of recreational activities, including camping, hunting, fishing, skiing, and hiking.

The Fish and Wildlife Service administers about 92 million acres, or 14 percent of the Federally owned lands. The majority of this land comprises more than 500 national wildlife refuges that provide habitat for migratory birds, endangered species, and other wildlife as well as wildlife oriented public recreation.

The National Park Service administers about 83 million acres, or 12.6 percent of the Federally owned lands. The National Park System encompasses 369 park units in 49 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and the Northern Mariana Islands.

For additional discussion of stewardship land, see the section on Stewardship Assets at page 90.

NOTE 8. LOANS AND INTEREST RECEIVABLE

Loans and Interest Receivable

(dollars in thousands)	1996	1995
Direct and Guaranteed Loans		
Credit Reform Loans	\$ 120,534	\$ 46,369
Liquidating Loans	232,391	264,865
Direct and Guaranteed Loans	352,925	311,234
Allowance for Doubtful Accounts	(71,231)	(62,796)
Loans, Net of Allowance for Doubtful Accounts	281,694	248,438
Other Interest Receivable from the Public	2,660	-
Loans and Interest Receivable	\$ 284,354	\$ 248,438

The Bureau of Reclamation, the Bureau of Indian Affairs and the National Park Service administer loan programs. Loans are accounted for as receivables after the funds are disbursed.

Reclamation's loan programs provide Federal assistance to organizations wishing to construct or improve water resources development in the West. The Bureau of Indian Affairs provides direct and guaranteed loans to Indian tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The Indian Affairs loan program includes the Indian Direct Loan Program and Indian Loan Guarantee Program under Credit Reform and a Liquidating Fund for loans made prior to 1992.

Pursuant to the Wolf Trap Farm Park Act, the Wolf Trap Foundation for the Performing Arts and the National Park Service amended their cooperative agreement to set up a repayment schedule of loan principal to the Foundation totaling \$8 million. The monies received for repayment may be retained until expended by the Secretary of the Interior in consultation with the Foundation for the maintenance of structures, facilities and equipment of the park.

Direct loans and loan guarantees made during and after fiscal year 1992 are accounted for in accordance with the requirements of the Credit Reform Act of 1990, and are referred to as "credit reform loans." Under credit reform, loans are comprised of two components. The first component is borrowed from the U.S. Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by Congressional appropriation. The Act provides that the present value of the subsidy costs associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component is not subject to repayment, the loan program receives annual appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates.

Prior to the Credit Reform Act, funding for loans was provided by Congressional appropriation from the general or special funds. These loans, referred to as "liquidating loans," are reported net of an allowance for estimated uncollectible loans or estimated losses.

NOTE 9. RESTRICTED ASSETS

The Land and Water Conservation Fund, the Historic Preservation Fund, and the Reclamation Fund are included in the financial statements of the Department. However, these fund assets are not available for use by the Department until funds have been appropriated by Congress.

The Land and Water Conservation Fund and the Historic Preservation Fund are administered by the National Park Service. Both funds receive a portion of the royalties and lease payments earned by the Federal Government from oil and gas extracted from Federal lands on the Outer Continental Shelf. In addition, the Land and Water Conservation Fund receives additional monies from sales of federal assets by the General Services Administration and other sources.

The balances in these accounts and annual year appropriations out of these accounts at September 30, 1996 and 1995 are as follows:

(dollars in thousands)	Account Balance		Appropriations	
	1996	1995	1996	1995
Land & Water Conservation Fund	\$ 11,128,809	\$ 10,358,876	\$ 138,073	\$ 216,795
Historic Preservation Fund	\$ 2,096,890	\$ 1,984,285	\$ 37,712	\$ 42,175

The Reclamation Fund is comprised of certain revenues received by the Bureau of Reclamation and the Department of Energy (Western Area Power Administration) from various sources including power/water sales, construction/operations and maintenance repayments, oil/mineral royalties, and sale of public lands. The balance in this fund at September 30, 1996 and 1995 was \$1,448,551 thousand and \$1,324,826 thousand, respectively. The Reclamation Fund is a financing resource to the Bureau of Reclamation and the Western Area Power Administration to the extent that previous year funds are appropriated by Congress to fund programs and operations.

NOTE 10. DEFERRED REVENUE

Unearned revenue is recorded as deferred revenue until earned. The majority of the deferred revenue (\$3.29 billion and \$3.33 billion as of September 30, 1996 and 1995, respectively) represents the cost of construction of capital assets reimbursable to the Bureau of Reclamation in the future, through water repayment contracts with water and other facility users. The repayments are recognized as revenue, including interest if applicable, when the annual amounts become due each year.

NOTE 11. NOTES PAYABLE TO TREASURY

The Department's debt to Treasury consists of (1) the helium production fund and (2) borrowings to finance the credit reform loan programs established under the Indian Financing Act of 1974.

Notes Payable to Treasury

(dollars in thousands)	1996	1995
Helium Fund	\$ 1,365,204	\$ 1,373,204
Credit Reform Borrowings	55,529	45,028
Total Notes Payable to Treasury	\$ 1,420,733	\$ 1,418,232

A. Helium Fund - Bureau of Land Management

Notes Payable to Treasury from the Helium Fund

(dollars in thousands)	1996	1995
Principal:		
Net Worth Debt	\$ 37,343	\$ 37,343
Additional Borrowing from Treasury	251,650	251,650
Total Principal	288,993	288,993
Interest:		
Beginning Balance	1,084,211	1,020,567
Interest Expense	-	73,644
Repayments	(8,000)	(10,000)
Ending Balance	1,076,211	1,084,211
Total	\$ 1,365,204	\$ 1,373,204

The Helium Fund was established in the late 1950's and early 1960's to ensure that the government had access to a dependable supply of helium, which at that time, was considered to be a critical defense commodity. Start up capital was loaned to the Helium program, with the expectation that the capital would be repaid with the proceeds of sales to Helium to other government users of helium. However, subsequent changes in the market price of helium and the need of government users for the commodity made the repayment of the capital, and subsequent accrued interest, impractical. Given the intra-government nature of the loan, unless the loan is forgiven, the funds for repayment to the U.S. Treasury must come from the U.S. Treasury, either in the form of appropriations to the Helium fund to repay the loan or in the form of appropriations to other government users of helium to pay the higher prices necessary to permit loan repayment.

The Helium Privatization Act of 1996, enacted October 9, 1996, directs the privatization of the Department's helium refining program. Under this law, the Department will cease producing, refining and marketing refined helium within 18 months of enactment. In addition, the sale of the Department's stockpile of helium will commence no later than January 1, 2005.

Net Worth Debt reported in the table above reflects the amount recorded by Treasury for the net worth capital and retained earnings of the Helium Fund, plus any monies expended thereafter by the Department of the Interior from funds provided in the Supplemental Appropriation Act of 1959 for construction of a helium plant at Keyes, Oklahoma. Additional borrowing from Treasury represents funds borrowed for the acquisition and construction of helium plants and facilities and other related purposes including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed. However, as funding has not been received to repay the amounts due, the amounts are now delinquent.

Interest on borrowing is compound interest on the debts described above, at rates determined by the Secretary of the Treasury taking into consideration the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. The interest rate was determined at the time of each borrowing. With the passage of the Helium Privatization Act of 1996, no further interest will be accrued on this debt.

B. Loans from Treasury under Credit Reform

The Bureau of Indian Affairs and the Bureau of Reclamation have borrowed funds from the U.S. Treasury in accordance with the Credit Reform Act of 1990 to fund loans under various loan programs. These amounts are repaid to Treasury as loan repayments are received from customers. At September 30, 1996 and 1995, the Bureau of Indian Affairs' debt to Treasury totaled \$26.36 million and \$27.89 million, respectively. Borrowings from Treasury by the Bureau of Reclamation at September 30, 1996 and 1995, totaled \$29.17 million and \$17.14 million, respectively. (See also Note 8, Loans and Interest Receivable.)

NOTE 12. CONTINGENT LIABILITIES

A. Hazardous Materials

The Department of the Interior is the Federal agency responsible for the Nation's national parks, wildlife refuges and public domain lands, which comprises approximately one-fifth of the Nation's land mass. In this role, the Department is faced with many hazardous waste clean-up situations. The hazards include chemical hazards such as drums of toxic chemicals and soil and water contaminated by chemicals, and physical hazards such as open mine shafts.

In addition to a limited number of cases where the Department may have created or contributed to the hazard, hazardous conditions on Department of the Interior lands for which the Department might fund clean up may result from:

- legal mining activities by others over the past two centuries and prior to current strict environmental clean up and restoration laws
- legal mining activities subject to current standards, but where the responsible party cannot be found, has declared bankruptcy, or otherwise cannot be compelled to remove the hazard
- illegal activities, including active and abandoned narcotics laboratories, hazardous materials dumping and illegal mining.

The Department has an active program to track hazardous sites, secure the affected areas and begin clean-up of priority areas. However, the vast expanse of Department lands prevents an acre by acre review, thus the total number of sites is not determinable. Once a site has been identified, it can take several years to evaluate the site and estimate potential clean up costs. Information available at the bureau level includes:

Bureau of Land Management: Virtually all Bureau of Land Management (BLM) clean up responsibilities result from non-Federal and often illegal uses of public lands. BLM has reported over 300 known sites to the Environmental Protection Agency for inclusion on the Federal Facilities Compliance docket. Studies of a statistically insignificant number of these sites indicated potential clean up costs ranging from \$500 thousand to \$7 million per site.

National Park Service: The Park Service has identified approximately 1,100 sites contaminated by petroleum or hazardous waste, approximately 200 of which have undergone investigation or remediation. The Park Service estimates that investigation and remediation of sites during the next four years will cost a minimum of \$80 million. Additional sites which may require remediation by the National Park Service include approximately 3,000 known abandoned mines, 700 known abandoned oil and gas wells, and 2,000 underground and 1,000 above ground fuel storage tanks.

Fish and Wildlife Service: The Fish and Wildlife Service (FWS) has identified approximately 25 major sites and numerous less costly sites on national wildlife refuges and national fish hatcheries. At these sites, FWS estimates the costs of remediation may range from \$110 to \$120 million. This estimate does not include provision for unknown sites, sites which have not been investigated, and sites where the financial responsibility is undetermined.

Bureau of Reclamation: Reclamation has identified several potential environmental clean up responsibilities, including abandoned mines, vehicle maintenance facilities and a landfill. In all cases except one, Reclamation is jointly liable with other Federal and non-federal entities. At the five most significant sites, Reclamation's potential share of the clean up liability in total ranges from \$20 million to \$91 million.

Bureau of Indian Affairs: The Bureau of Indian Affairs (BIA) is a potential liable party at several Superfund sites. In general, the extent of BIA's liability is not yet known either due to disputes as to their degree of responsibility or because the cost of remediation is not known. BIA estimates that the costs of preliminary site investigations and studies may total at least \$30 million.

B. Indian Trust Funds

The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the United States Government for Indians and Indian Tribes.

At the direction of the Department and the Bureau of Indian Affairs, a national accounting firm has conducted a five-year project to reconcile tribal trust fund account activity over the 20 year period beginning in 1972. The report of this reconciliation indicates that while there is no evidence that funds have been lost or stolen, the method of record keeping over the last several decades is not sufficient to reconstruct all activity or to permit a complete reconciliation of the Tribal trust accounts. The Department has presented to Congress a report that outlines proposed legislative settlement options for resolving disputed balances in Tribal trust accounts. Consultations with Tribes are presently underway to reach a resolution of the issue.

The reconciliation project and the Department's report to Congress did not address similar issues regarding trust accounts held for individual Indians. In 1996, certain parties brought a class action lawsuit against the Secretary of the Interior, the Assistant Secretary for Indian Affairs and the Secretary of the Treasury alleging breach of trust with respect to the United States' handling of Individual Indian Money trust fund accounts. Counsel for the plaintiffs and the Government are currently negotiating the resolution of this matter.

No estimate is made at this time as to any financial liability that may result from the resolution of the Tribal reconciliation, the individual Indian class action lawsuit and any other related claims. However, it is likely that any settlement will be paid out of funds appropriated by Congress for that purpose.

C. Other

The Department, through the Bureau of Reclamation and the Bureau of Indian Affairs, is responsible for the management and maintenance of several hundred dams and reservoirs. Over half of these facilities were constructed between 1900 and 1950 and the continued safe operation of this aging infrastructure is a high priority of the Department. The Department has identified those structures that would place the public at risk if they were to fail, and has embarked on a program to detect and analyze dam safety problems, install early warning systems and make the repairs needed to mitigate structural deficiencies and risks.

The Bureau of Indian Affairs and the Bureau of Reclamation are defendants in certain litigation where the amounts claimed are in excess of \$1 billion. The ultimate outcome of these cases cannot be predicted at this time. Additionally, the Department is party to a number of lawsuits and other actions where monetary amounts are sought from the Department. In the opinion of management, the resolution of these other matters will not have a material impact on Department operations or financial position.

NOTE 13. OPERATING EXPENSES

Operating Expenses

(dollars in thousands)	Natural Resources	Science	Indian Affairs	Other	Total 1996	1995
Salaries and Benefits	\$ 2,270,402	\$ 608,518	\$ 477,699	\$ 97,308	\$ 3,453,927	\$ 3,565,264
Contractual Services	940,297	183,230	736,433	241,427	2,101,387	2,497,027
Grant, Subsidies and Contributions	1,031,127	72,897	473,943	304,592	1,882,559	2,102,877
Rent, Communication and Utilities	227,146	98,661	43,426	20,032	389,265	335,114
Supplies and Materials	208,149	39,540	43,987	43	291,719	243,817
Non-Capitalized Property and Equipment	174,881	36,014	12,360	8	223,263	270,907
Travel and Transportation	126,016	31,145	28,054	232	185,447	195,506
Printing & Reproduction	13,032	5,545	833	17	19,427	20,093
Changes in Estimates and Other	37,962	7,321	228,579	30,749	304,611	282,383
Intra-Segment & Intra-Department Eliminations	(46,237)	(3,583)	-	(247,301)	(297,121)	(296,757)
Total	\$ 4,982,775	\$ 1,079,288	\$ 2,045,314	\$ 447,107	\$ 8,554,484	\$ 9,216,231

NOTE 14. COMPARATIVE DATA

Audited comparative data for fiscal year 1995 has been presented in order to provide an understanding of changes in financial position and operations of the Department. Fiscal year 1995 has been restated to reflect the assets, net position, and operating activity of the Land and Water Conservation Fund, the Historic Preservation Fund, and the Reclamation Fund (see Note 9). Certain changes have also been made to prior year data, including fiscal year 1995 beginning net position, to reflect current standards and presentation. These changes include corrections to increase fiscal year 1995 Operating Expenses and Appropriated Capital Used by \$127 million for the cost of stewardship land purchased by the Fish and Wildlife Service during 1995 and to reclassify \$643 million from beginning Cumulative Results of Operations to Transfers to Others. In addition, as discussed in Note 1, the impact of intra-bureau activity was not eliminated in fiscal year 1995.

Prior Period Adjustments

(dollars in thousands)	1996	1995
Implementation of Property Accounting Standards		
Bureau of Indian Affairs	\$ 2,450,287	
National Park Service		\$ 6,026,303
Bureau of Reclamation		5,698,314
Fish and Wildlife Service		1,157,105
Bureau of Land Management		701,583
Other Accounting Changes		
Restatement of Equity Accounts		
Bureau of Reclamation	(658,955)	
Other Changes:	29,162	176,277
Total Prior Period Adjustments	\$ 1,820,494	\$ 13,759,582

Prior Period Adjustments are used to reflect in the current period the retroactive impact of newly adopted accounting standards and policies. The most significant of these result from the implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment." SFFAS No. 6 changes the reporting of Stewardship Assets and requires that depreciation be recognized for all general property, plant and equipment. This standard recognizes that Stewardship Assets, including public domain land, and monuments and other heritage assets, do not have an identifiable or meaningful financial value, therefore no amount should be reported for these assets in the financial statements. This standard is required to be implemented no later than fiscal year 1998 with early implementation encouraged. Several of the Department's bureaus adopted the stewardship asset and depreciation provisions of this standard beginning in fiscal year 1995 or 1996. See Note 6 for additional information.

In addition, in 1996, the Bureau of Reclamation reviewed the accounting treatment of various equity accounts, resulting in certain accounting corrections. Other restatements reflect significant changes in the presentation of prior year data to conform to the current year presentation.

NOTE 15. INDIAN TRUST FUNDS

The Department of the Interior has fiduciary responsibility for approximately \$2.8 billion dollars held in trust on behalf of American Indian Tribes and individuals. The trust funds are comprised of \$2.3 billion held in tribal accounts for approximately 315 tribes, with the remainder held in approximately 317 thousand individual Indian accounts and other special trust funds, including the Alaska Native Escrow Fund. The assets held in trust for Native Americans are owned by the trust beneficiaries and are not Federal assets. Therefore, these amounts are not reflected in the Consolidated Financial Statements of the Department included in this report.

In fiscal year 1996, the Office of the Special Trustee was established pursuant to the *American Indian Trust Fund Management Reform Act of 1994* to provide for more effective management of, and accountability for, the proper charge of the Secretary's trust responsibilities to Indian tribes and individual Indians. The Special Trustee reports directly to the Secretary and, among other responsibilities, is charged with general oversight of efforts to reform the management of Indian trust assets. For information on lawsuits and other claims related to the management of the Indian trust funds over the last several decades, see Note 12.

A summary of the Assets, Trust Fund Balances and Changes in Trust Fund Balances is presented below. These amounts do not include trust land managed by the Department.

Tribal and Individual Indian Monies and Other Special Trust Funds

Statement of Assets and Trust Fund Balances

at September 30, 1996

(dollars in thousands)

ASSETS	
Current Assets	
Cash with U.S. Treasury	\$ 3,777
Investments	2,778,701
Accrued Interest Receivable	32,136
TOTAL ASSETS	\$ 2,814,614

TRUST FUND BALANCES , held for Indian Tribes and individual Indians, and Other Special Trust Funds.	\$ 2,814,614
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Tribal and Individual Indian Monies and Other Special Trust Funds

Statement of Changes in Trust Fund Balances

at September 30, 1996

(dollars in thousands)

Receipts	\$ 815,997
Disbursements	(672,834)
Receipts in Excess of Disbursements	143,163
Trust Fund Balances, beginning of year	2,671,451
Trust Fund Balances, end of year	\$ 2,814,614